

Cop report



We are not presenting a source and application of funds as it would not be meaningful.

KELLY-DEYONG SOUND CORPORATION LTD.

Report to the Shareholders

FOR THE SIX MONTHS ENDED

AUGUST 31, 1970

REPORT TO THE SHAREHOLDERS AND EMPLOYEES

for the six months ended August 31, 1970

The Board of Directors has asked me to personally write the Six Months Report to our shareholders and employees. There have been many changes to our company since the beginning of our fiscal year, and I would like to tell you about some of them.

At the end of February, 1970, the Board decided to employ a person to manage all of the normal activities relating to company operations. The President, Mr. A. Keith Plant, was brought into the company for this purpose. Since this is the first time I have had a chance to introduce Mr. Plant to you, I will tell you briefly about his background. Mr. Plant graduated from the University of British Columbia in 1961 with a degree in Electrical Engineering. Upon graduation, he joined International Business Machines Canada Ltd., in their Data Processing Sales Division. He was employed by I.B.M. until he joined our company in February. His most recent responsibilities prior to joining the company, included several sales management positions, providing him with a broad base of experience upon which to draw in his capacity as President of Kelly-DeYong Sound Corporation Ltd., and subsidiary companies.

Since Mr. Plant has been managing the company, he has succeeded in improving the operation of many areas. As we pointed out in our Annual Report, the consolidation of six companies has been an extensive undertaking. Mr. Plant has established a very efficient base of operations for the new consolidated organization. New divisions have been established to closely control all of our activities relating to the buying and selling of our products. In Alberta and Saskatchewan, we have established the Prairie Division. In British Columbia, we now have two retail divisions: The Audio and Musical Instrument Division and the Record Division. To monitor our wholesale distribution, including sales to our franchise accounts, we are establishing a wholesale division.

The accounting department has been reorganized to allow for daily reporting of all sales by location. In addition, we are now able to track all of our expenses for each location every month. In the future, the increased availability of information from our accounting department will provide us with the means to react quickly to areas affecting our profit. You will be interested to know that many of our major expenses, such as salaries, administrative and operating costs, have been substantially reduced during the last six months. These expense reductions are not reflected in this interim report.

Clearly, the extent of reorganization and simplicity of the new systems, represent a major step towards establishment of a profitable base of operations. Mr. Plant has done an outstanding job in bringing all of the company's major areas into a well organized operation. I am confident that Mr. Plant has the experience and enthusiasm required to bring our company into a profitable position.

Like all of you, I am not satisfied with the financial results for the six months period ending August 31, 1970. During that period, the company shows an operating loss of \$173,585. This loss was forecast by your management at the time the 1970-71 operating plan was established. Historically, sixty-two percent of company sales are generated during the second six months of the year. We expect to recover a great deal of the loss between now and the end of our fiscal year. However, based on current economic conditions, I believe our company will conclude this year showing a small loss.

In the future, it is management's intentions to become more involved in our wholesale business. To this end, we have secured the exclusive Canadian distributorship for several products related to the Leisure market. Together with an expansion of our franchising activity, we will be marketing on a wholesale basis across Canada by the end of our fiscal year.

Let me assure you that your company has a stable base of operations. Our current financing has been sufficient to maintain all of the company's functions at an efficient level. We do not anticipate any major changes to the company's operations during the remainder of the year.

On behalf of your Board of Directors,
C.W. Kelly, Chairman of the Board.

KELLY-DEYONG SOUND CORPORATION LTD.

COMPARATIVE INCOME STATEMENT

	For the six months ended	
	Aug.31, 1969	Aug.31, 1970
Gross Sales	\$ 1,592,451	\$ 1,467,421
Cost of Sales	1,079,763	1,086,904
Gross Profit	512,688	380,517
Expenses:		
Operating, selling and administration	384,787	448,577
Rent	36,427	70,637
Interest	18,057	26,317
Depreciation and Amortization	8,845	24,971
Total Expenses	448,116	570,502
Income (Loss) before income taxes	64,572	(189,985)
Provision for income taxes	12,500	(16,400)
Net Income (Loss) for the period	\$ 52,072	\$(173,585)